COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE IMPACT OF THE FEDERAL ENERGY REGULATORY COMMISSION'S ORDER 636 ON KENTUCKY CONSUMERS AND SUPPLIERS OF NATURAL GAS)	ADMINISTRATIVE CASE NO. 346

O R D E R

On January 29, 1993, the Commission established this proceeding to gather information and solicit comments concerning the impact of the Federal Energy Regulatory Commission's ("FERC") Order 636 on the provision, regulation, and consumption of natural gas in Kentucky. On November 11, 1993, the Commission conducted a hearing limited to certain specific issues of most immediate concern. These issues included 1) the appropriate treatment of transition costs, 2) the appropriate treatment of taxes on gas in storage, 3) the appropriate treatment of charges incurred by jurisdictional utilities for capacity imbalances on the transporter pipelines, and 4) the status of gas supply arrangements entered by jurisdictional local distribution companies. Parties were also invited to suggest other issues of immediate concern which are pertinent to the record in this proceeding.

Testimony was provided by witnesses for Columbia Gas of Kentucky, Inc., Louisville Gas and Electric Company, Western Kentucky Gas Company, Delta Natural Gas Company, Inc., The Union Light, Heat and Power Company, and Kentucky Industrial Utility

Customers. A witness for Commonwealth Energy Services offered comments.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Pipeline transition costs are appropriate to be recovered as gas cost through gas cost or purchased gas adjustment filings as long as they are clearly identifiable as being related to the cost of the commodity itself (for example, contract reformation and Account 191 costs). Any other transition costs to be collected by the pipelines in surcharge form will be reviewed on a case-by-case basis through gas cost filings. Transition costs may be included in the expected gas cost portion of periodic filings, and should be recovered from all sales customers and all transportation customers to whom the local distribution company ("LDC") has an obligation to provide any sales, back-up, or stand-by sales service. A transportation customer whose service is purely interruptible should not be charged any part of the LDC's portion of a pipeline's transition cost because it has no right to the system supply of that LDC and does not contribute to the LDC's obligation to assure the availability of natural gas supply.

2. Taxes on gas in storage should not be recovered through the gas cost or purchased gas adjustment filings. To the extent that they are assessed directly on the LDC, they should be included for recovery in general rate case proceedings as is other tax expense.

3. To the extent that pipeline imbalance charges can be identified as the responsibility of an individual customer, that customer should pay the charge. The Commission encourages any LDC that has not done so to install any metering equipment necessary to monitor imbalances on its system. Provisions for the recovery of cost of metering from an individual customer should be accomplished by procedures approved by the Commission pursuant to 807 KAR 5:022, Section 8(2)(c) and included in the LDC's tariff. Assignment of such cost to individual customers should be based on the use of consistent and non-discriminatory evaluative criteria in determining when or if the assignment will be made.

4. LDCs may propose recovery of imbalance charges through gas cost or purchased gas adjustment filings. LDCs with periodic gas cost adjustment clauses should separately identify pipeline imbalance charges in their actual adjustments along with any amounts to be billed to individual customers. LDCs should include an explanation of all imbalance charges incurred.

5. Any LDC that has not already done so should file its current portfolio of gas supply and transportation contracts.

IT IS THEREFORE ORDERED that:

1. Pipeline transition costs shall be recovered through gas cost or purchased gas adjustment filings as set out herein.

2. Taxes on gas in storage shall be proposed for recovery through rate case proceedings only.

3. Customers responsible for imbalance charges shall pay such charges. Imbalance charges attributable to the general body of customers may be proposed for recovery as set out herein.

4. Within 30 days of the date of this Order, LDCs shall file gas supply and transportation contracts as required herein.

Done at Frankfort, Kentucky, this 22nd day of December, 1993.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director